

ISSUE DATE: September 3, 1999

DOCKET NO. E-015/M-99-1002

DOCKET NO. E-999/CI-99-1261

ORDER CLOSING DOCKET AND INITIATING PROCEDURE FOR DEVELOPING
GUIDELINES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Developing Statewide
Jurisdictional Boundary Guidelines for
Functionally Separating Interstate
Transmission from Generation and Local
Distribution Functions

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PROCEDURAL HISTORY

On July 21, 1999, Minnesota Power requested the Commission open a docket for the development of certain guidelines for all Minnesota electric service providers. Minnesota Power asked that the guidelines determine the functional boundaries between utility (1) transmission and generation functions; and (2) transmission and local distribution functions. Minnesota Power included a proposed schedule for comment that would lead to adoption of jurisdictional boundary guidelines by December, 1999.

On August 19, 1999, the Commission met to consider Minnesota Power's proposal. At the meeting, both the Department of Public Service (the Department) and the Residential and Small Business Division of the Office of Attorney General (RUD-OAG) expressed support for the development of transmission boundary guidelines.

FINDINGS AND CONCLUSIONS

I. MINNESOTA POWER'S PROPOSAL

Minnesota Power proposed opening a docket on transmission functional boundaries as a first step in the electric utility industry's current examination of restructuring/unbundling/retail choice. Minnesota Power suggested a procedural framework by which parties would:

1) comment on the scope of certain example guidelines; 2) next, comment on and support

preferred guidelines by applying the Federal Energy Regulatory Commission's (FERC's) Seven Factor Test¹ to parties' own transmission assets; and 3) submit reply comments to develop consensus or narrow any scope of disagreement. Minnesota Power suggested that the Commission then adopt transmission boundary guidelines that would be generic in nature yet specific to each utility's factual differences. Minnesota Power envisioned electric utilities using the guidelines--whether by reference to a guideline or by request to deviate from it--in future rate cases, affiliated interest contracts, unbundling, and asset transfers before the Public Utilities Commission and the FERC.

Minnesota Power cited the following major reasons for developing guidelines for determining functional transmission boundaries:

- Widespread interest in a generic boundary proceeding was revealed in the Northern States Power cost separation docket, E-002/M-98-1878.
- The RUD-OAG has urged the Commission to proceed with the unbundling of regulated rates as a step toward developing market-compatible conservation policies.
- The Department has committed to the development of gas and electric utility restructuring principles by January 1, 2001; MP's proposed proceeding would assist the Department by defining the boundaries of interstate transmission.
- FERC's Notice of Proposed Rulemaking on Regional Transmission Organizations (RTOs) contains near-term dates by which utilities must either join RTOs or indicate the organizational issues that must be resolved prior to joining. Generic boundary guidelines will be necessary to determine which assets will be transferred to an RTO.
- Wisconsin law requires Wisconsin utilities to join an RTO by July 1, 2000; four of Minnesota's five investor-owned electric utilities have affiliates or subsidiaries with

¹ FERC's Seven Factor Test to identify the boundaries between transmission and distribution and transmission and generation consists of the following elements:

- local distribution facilities are normally in close proximity to retail customers
- local distribution facilities are primarily radial in nature
- power flows into local distribution systems; it rarely, if ever, flows out
- when power enters a local distribution system, it is not reconsigned or transported to some other market
- power entering a local distribution system is consumed in a comparatively restricted geographical area
- meters are based at the transmission/local distribution interface to measure flows into the local distribution system
- local distribution systems will be of reduced voltage

electric utility operations in Wisconsin.

- The FERC has stated that it will defer to state regulatory authority in determining the boundary between interstate transmission and local distribution under FERC Order 888.
- Boundary guidelines will advance competitive fairness, consistency in accounting methodologies, and state and regional regulatory coordination.

II. COMMISSION ACTION

The electric utility industry has undergone significant change in the past few years. Interested parties are now examining the merits and drawbacks of further change in the form of restructuring/unbundling/retail choice. The ability to define the physical boundaries of utility assets will undoubtedly assist regulators, utilities, intervenors, and other interested parties as they study these industry issues. No matter how the industry eventually evolves, the identification of the boundaries of physical assets will prove increasingly important in competitive proceedings, cost separations dockets, rate cases, and valuations for asset transfers. The Commission sees its development of guidelines for identification and separation of transmission assets as a logical and significant first step in this evolving process.

At the August 19 meeting, the Department agreed with the Commission that a transmission boundary investigation by the Commission would complement the Department's ongoing development of gas and electric utility restructuring principles. The Department stated that it will work with the Commission to ensure that the two efforts result in synergies, not in duplication or conflict.

The Commission generally agrees with Minnesota Power's proposed comment and reply period to focus and define transmission boundary issues for resolution. In the end, however, the Commission must develop common principles which will be applicable on a fact-specific basis to each utility's particular circumstances. This process may require a Commission-directed round table to ensure that all parties have equal and fair opportunity for input into the development of principles.

The Commission will therefore initiate a proceeding to investigate transmission jurisdictional boundaries. The Commission will delegate authority to its Executive Secretary to initiate this proceeding with a period for filed comments and reply comments, and to vary comment periods from the Commission's rules of practice and procedure as required. After parties' filings have provided viewpoints, information, and recommendations, the Commission plans to convene a round table to narrow the issues and eventually help to develop guidelines.

ORDER

1. The Commission initiates an investigation under Docket No. E-999/CI-99-1261 to develop

guidelines regarding transmission functional boundaries.

2. The Commission delegates to its Executive Secretary the authority to establish comment periods to gather stakeholder input regarding guidelines for transmission asset boundaries, and to vary comment periods from the Commission's rules of practice and procedure as required. The Executive Secretary is authorized to send any notices necessary to implement the comment periods. The Executive Secretary is further authorized to convene a Commission's round table, subsequent to the initially noticed comment periods, to help develop transmission boundary principles.
3. Docket No. E-015/M-99-1002 is closed.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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